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UNCLAS SECTION 01 OF 03 KABUL 003998

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DEPT PASS USTR FOR GERBER AND KLEIN
DEPT PASS OPIC FORZAHNISR
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CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT
NSC FOR JWOOD
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MANILA PLEASE PASS ADB/USED
PARIS FOR OECD/ENERGY ATTACHE
OSD FOR SHIVERS, SHINN
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TOKYO ALSO FOR AID COUNSELOR AANENSON

SENSITIVE
SIPDIS

REF: KABUL 3993

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TAGS: [ENRG](#) [EFIN](#) [ETRD](#) [KPWR](#) [EAID](#) [PGOV](#) [AF](#) [CH](#)
SUBJECT: AF: Afghans to fund Uzbek power line connection to NEPS.

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Sensitive but Unclassified

1. (SBU) Summary. Afghanistan's mission to Uzbekistan to reinvigorate negotiations for energy imports through the North East Power System (NEPS) project appears to have produced positive results. Delegation head Deputy Minister of Energy and Water Mir Sediq expects to lead a follow-on mission to Tashkent in early January 2008 to begin negotiations on pricing. The two sides came to an agreement on financing the remaining 43 kilometers of 220 kv power lines in Uzbekistan needed to connect the two countries' electrical systems. They confirmed and exchanged technical information regarding the interconnection and began initial review of a proposed term sheet outlining terms for a power purchase arrangement. A contract for the construction of power lines in Uzbekistan is to be signed in January, with project completion expected in October 2008. Should this deadline be met, 110 MW of power could begin to flow through the NEPS system to Kabul in early 2009. End Summary.

2. (SBU) EmbOffs met with Deputy Minister of Energy and Water Mir Sediq, on December 4 to discuss his recent trip to Uzbekistan to negotiate for the import of Uzbek power to Afghanistan via the NEPS system. This trip, a follow up to recent negotiations in Kabul (Reftel), consisted of a four-man delegation including Sediq, Deputy Minister of Finance Shahrani, the head of the Afghan Energy Company DABM and one other technical engineer. Rather than fly to Tashkent, the delegation drove to the Surkhan substation from which Uzbek

power will be exported. Together with the Uzbek Deputy Minister of Energy, they confirmed that only a small transformer and minor repairs are necessary in order to increase the total export of Uzbek power from 40 MW (currently going to the city of Mazar-e-Sharif) to 150 MW. The additional 110 MW is expected to go directly south to the Kabul power grid, flowing over the 250 MW capacity 220 kv transmission line currently being built and on schedule by the Government of India.

Discussions in Detail

13. (SBU) Discussions regarding financing and construction of the necessary 43 km of 220 kv transmission line needed to link Surkhan with the Afghan power grid proved difficult. Total project cost is estimated at USD 21 million, with USD 15 million for the construction of the transmission line and USD 6 million for an additional transformer at Surkhan to step down Uzbekistan's 500 kv power to 220 kv for transmission to Afghanistan. The Afghans offered to foot the USD 21million bill as a "pre-payment" for their energy imports. The Uzbeks, who are well aware of the importance of this power import for Afghanistan, did not accept the offer. Instead they insisted that Afghanistan pay for the project outright.

In return, although the 43 km of transmission line within Uzbekistan will technically be "owned" by Afghanistan, Uzbekenergo, the national electric company, will operate and maintain it. In addition, Uzbekistan has already surveyed the route and will take care of all "right of way" issues pertaining to the project. After consulting with Kabul, the Afghans were able to agree to this arrangement.

14. (SBU) According to Sediq, the terrain on which the 43 km of transmission lines will be built is relatively flat, an initial survey of the route had been done by the Uzbeks and winter weather will not hamper construction. The route closely follows the road

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leading to the Uzbek-Afghan border so moving supplies to the project site will not be problematic. An Uzbek firm is expected to begin construction after a formal contract signing in early January 2008. For the time being, the Uzbeks have agreed to begin the detailed route survey and to review the term sheets proposed by the Afghans. (Note: This is a product of USG consultants to the NEPS project. End Note.)

Cabinet Approval Imminent

15. (SBU) President Karzai was briefed on the outcome of his trip on Sunday, December 1 and agreed to support Afghan financing of the line according to Sediq. Initial concurrence was obtained at this week's Cabinet meeting. Sediq expects the Cabinet to approve the following proposals at its next meeting:

-- USD 21 million from the Afghan budget for the financing of the Uzbek transmission lines.

-- Designation of Sediq or other individual authorizing them to sign a construction contract for the transmission line and negotiate and agree on the term sheets, which will be the basis for signing a power purchase agreement with the Uzbeks, on behalf of the IROA, preferably in January.

Importing more than 110 MW

16. (SBU) In his discussions, Sediq also learned that the Islamic Development Bank has agreed to fund the USD 78 million 500 kv transmission line within Uzbekistan from Guzar to Surkhan in Uzbekistan. According to the Uzbeks, the project is underway and when complete will enable them to export an additional 150 MW of power to Afghanistan, potentially boosting the total power to Kabul to 260 MW. No timeline for completion was given.

¶7. (SBU) When questioned about the per kilowatt hour price Afghanistan expected to pay for Uzbek power, Sediq stated they currently pay four cents US per kw hour for the 40 MW imported to Mazar and that he expects to pay less for the additional 110 MW, since Afghanistan will be footing the bill for the transmission line. (Comment: Post believes this to be an unrealistic expectation, however any price agreed upon by the two parties will be much lower than the current per kilowatt hour price to generate power in Kabul. End Comment.) Pricing discussions will be taken up in January when Sediq expects to lead another Afghan delegation to Uzbekistan, this time to Tashkent in order to sign government to government agreements.

¶8. (SBU) Comment: Although this trip did not result in the signing of a power purchase agreement (PPA) between Uzbekistan and Afghanistan, the Afghans appear to be one step closer to realizing the import of 110 MW of additional power from Uzbekistan by early ¶2009. If indeed the construction arrangement reported by Mir Sediq comes to fruition, there remains only the negotiation of an amended power purchase agreement. With such an agreement, the goal to energize at least part of the NEPS project by early 2009 could be met. Post continues to monitor developments in all aspects of the NEPS project. We will continue to work behind the scenes with the Afghans, pressing them to aggressively pursue a PPA with Uzbekistan

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as well as Tajikistan and Turkmenistan. End Comment.

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